

White Paper Supplement to 2014 Housing Needs Assessment

Long-Term Planning for Affordable Housing

Housing Needs & Louisiana Economic Development

The Project for Community Engagement

Public Administration Institute
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Long-term Planning for Affordable Housing: Housing Needs and Louisiana Economic Development

I. Introduction

The Louisiana Housing Needs Assessment is an initial step toward coordinating housing policy initiatives aligned with the mission and purpose of the LHC and the short-run and the long-run projections of the Louisiana population. The housing needs assessment (HNA) provides important information about Louisiana that establishes the baseline for community engagement for any public policy decisions.

In developing the housing needs assessment we, in coordination with the LHC staff, decided very early that the state was not a single housing market.¹ The state's differentiated housing market is easily illustrated by the differences between East Carroll Parish (a parish with a high level of poverty, a notable inequality of income, and with a small population and low density of 18 people per square mile) and Orleans Parish (a parish with over 360,000 persons, concentrated areas of poverty side by side with areas of affluence, and a density of over 2,000 people per square mile). And, this is one of many comparisons within the state that highlights the diversity of the Louisiana housing market and the need for a smaller framework of reference than the state.

At the same time, housing markets are not as small as the parish. We noted that housing markets are tied to labor markets: families are connected to regions in which family members are employed. We consequently focused our assessment on regional labor markets developed by the Louisiana Workforce Commission (LWC). LWC divided the state into eight regional labor market areas (RLMAs) anchored by the eight metropolitan statistical areas within the state. People can and do move across these regional labor markets to satisfy the demands of their family with job opportunities. However, the regional labor markets establish a geographical area that contains the communities in which people live with the region in which they work.

The regional labor market is defined based upon the employment network, but it also captures other amenities such as shopping and social events, family security, healthcare options, and so on. But even within the regional labor market, households select communities based upon myriad factors: proximity to friends or relatives; accessibility to particular amenities, school district, proximity one's workplace. Thus, the regional labor market area is a useful spatial dimension around which to assess housing needs.

To get information closest to the communities in which people live, we divided the RLMAs into Census tracts, an area created by the US Census and updated according to population shifts at every decennial census. The Census tracts average about 4,000 households, though they vary because of the

¹ We make this point since many housing needs assessment studies have been state focused. We felt very strongly that such a focus diminishes the use of the housing needs assessment study greatly. And, this was reinforced after our discussions with the staff at LHC. Policies needed to be developed on a much more micro basis which data must be organized at a more micro level.

density of population in areas such as New Orleans or Baton Rouge and the sparsely populated areas in rural areas.

The purpose of a housing needs assessment is not merely to comply with federal standards; it is to provide information to inform housing policy decisions given that there are always resource constraints. This HNA is the first step designed to provide the information to LHC to make informed and targeted housing policy decisions. The HNA becomes the backdrop for public policy discussions. It is the first step. Subsequent steps include updating the information, connecting the data to proposed and ongoing developments in the state, and engaging the community in order to establish housing policies in accordance with the long-term, sustainable development of the community.

II. Housing Needs Assessment: Classifying Housing Issues in Louisiana, 2014

A housing needs assessment brings together a great deal of data into an understandable framework. The information is organized by two data groups: socioeconomic and housing/affordability characteristics.

Socioeconomic Characteristics

- Population Density—level of congestion and possible impact on affordability.
- Disabilities—broadly defined so may not be as useful in making housing policy decisions—purpose of community engagement activities
- Median Household Income—variation among parishes even within same labor market; as example, from low of about \$37,000 in Orleans and a high of over \$60,000 in St. Charles. Income is defined as where household lives, not where the wage earners work.
- Population living in poverty—very good indicator of families needing support for housing and other basic services
- Elderly Population with Relatively Low Income
- Employment --- based on surveying people and not business units
- Commuting—time to go from where a person lives to where he or she works
- All of these socioeconomic characteristics relate to housing policy.

Housing and Affordability

- Median House Value—wide range of values: for example in Regional Labor Market 1 (New Orleans), the lowest in St. James Parish at just over \$100,000 to over \$200,000 in St. Tammany and Plaquemines Parishes
- Vacancy Rates – Based upon houses for sale and rental advertisements
- Resident Tenure
 - Before 1990—sustainability of community
 - After 2005—mobility and movement into neighborhoods
- Rental Affordability (Gross Rent as Percent of Income)
- Owner Affordability (Selected Monthly Owner Costs as Percent of Income)
- Overcrowding – more than 1.5 occupants per room (this is the standard measure of overcrowding according to HUD)
- Rental Concentration – to complement the rental affordability measure
- Mobile Homes

All of this information is important for creating and implementing appropriate housing policy. As a practical matter for policymaking, it is important to focus on the information that requires policy responses or that demands further investigation.

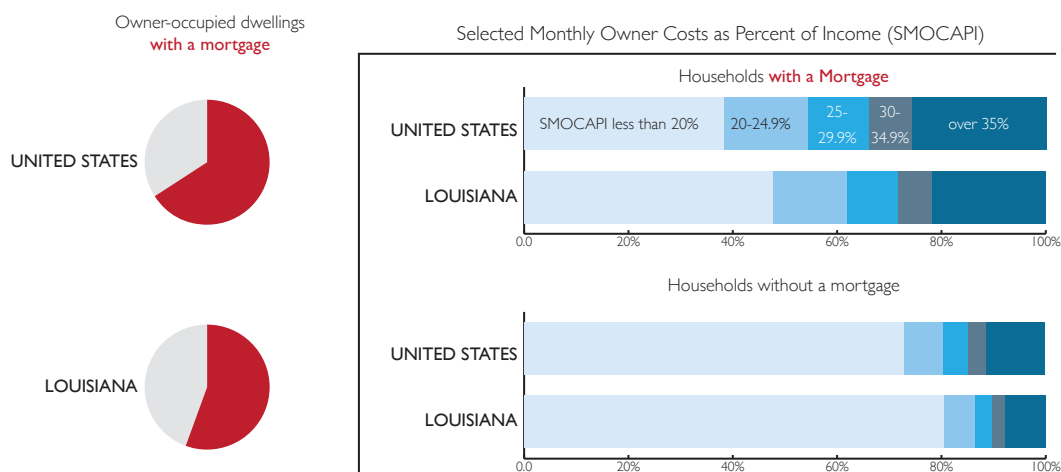
As we reviewed the data for Louisiana and compared it to the national data, we felt it was important to highlight several major characteristics in the Louisiana housing market as of 2014. Louisiana is less wealthy than the U.S. as a whole with a state median household income that is about 84% of the national median household income. Louisiana, however, has a higher owner-occupancy rate than the U.S. with 67.9% of households in Louisiana living in owner-occupied dwellings (32.1% in rental units) as compared to 66.1% nationally (33.9% in rental units). The division between owner-occupied and rental units and the cost of these units highlight the mission of the LHC, namely, housing affordability.

Owner-Occupied Housing Affordability

Owner-occupied housing affordability as defined by the monthly owner costs as a percent of income is illustrated in Figure 1. As shown in Figure 1, proportionately fewer homeowners in Louisiana have a mortgage than in the United States. And, of those home owners with a mortgage, close to 50% pay less than 20% of their income on household costs such as mortgage payments, insurance, and utilities; nationally, fewer than 40% of the homeowners pay less than 20% of their income on housing. More than 80% of the Louisiana homeowners without a mortgage as compared to approximately 75% nationally pay less than 20% of their monthly income on house expenses. It is estimated that in Louisiana 16.4% of families in owner-occupied homes face affordability challenges, defined as spending more than 35% of their income on housing expenses, compared to 22.8% nationally. Homeowner affordability is fairly stable across the state with the highest percentage of families spending more than 35% of their income on housing being 19.2% in East Carroll Parish.

Homeowner affordability stress, defined as paying more than 35% of gross income on housing, has increased from 14.2% in 2000 to 16.4% in 2010. On the other hand, the number of families with a mortgage has declined from 59.7% in 2000 to 56.2% in 2010.

Figure 1. Monthly Owner Costs as Percent of Income, LA and US



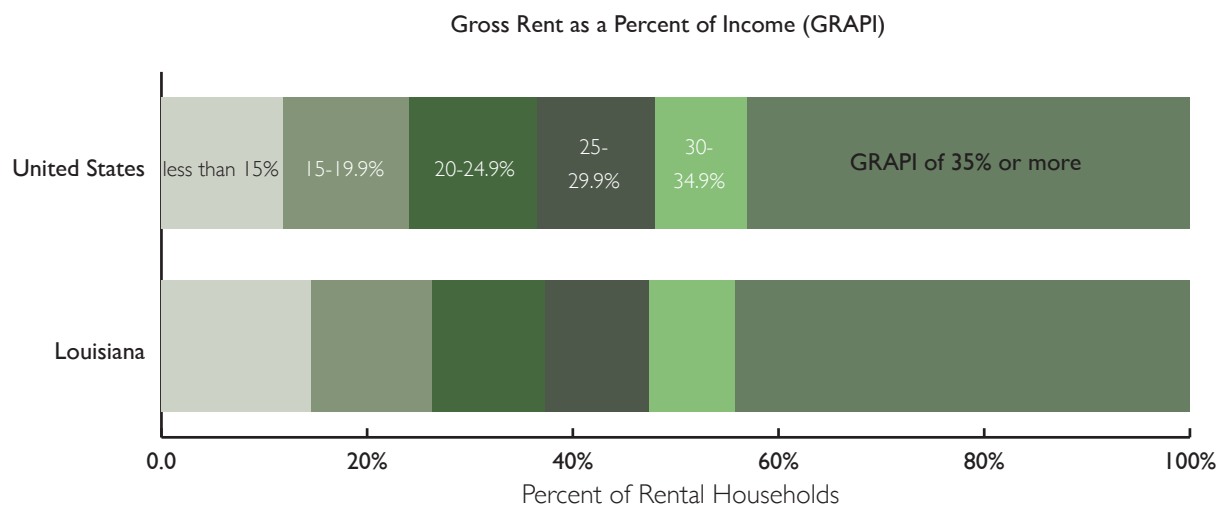
Homeownership stress is always an issue that needs monitoring, but at this time it does not stand out as an issue that needs statewide immediate attention. Nevertheless, this is the type of issue that might be isolated areas of the state and might become an issue as a result of rapid development that puts pressure on housing prices.

Renter Affordability

Gross rent as a percent of income (GRAPI) has become a substantial issue in Louisiana. In 2000, 29.8% of renters paid more than 35% of their gross income on housing expenses. In 2010 this ratio increased to 44.6%, an increase of 14.8 percentage points. If we examine the percentage of families paying more than 30% of their gross income in housing expenses, the estimate in 2000 was 36% while in 2010 the estimate is 53.1%. Over half of the rental population, or approximately 270,000 households, is spending more than 30% of their income on housing expenses. These estimates for the U.S. and Louisiana are illustrated in Figure 2.

These estimates of rental families paying more than 35% of their income on housing expenses vary substantially across regions. In Orleans and St. Bernard parishes almost 55% of families who rent pay over 35% of their income on housing expenses. The polar extreme is Cameron Parish where only 4.9% of rental families pay more than 35% of their income on housing expenses. But, Calcasieu Parish, just to the north of Cameron Parish, has 43% of rental families paying more than 35% of their income on housing expenses.

Figure 2. Gross Rent as Percent of Income



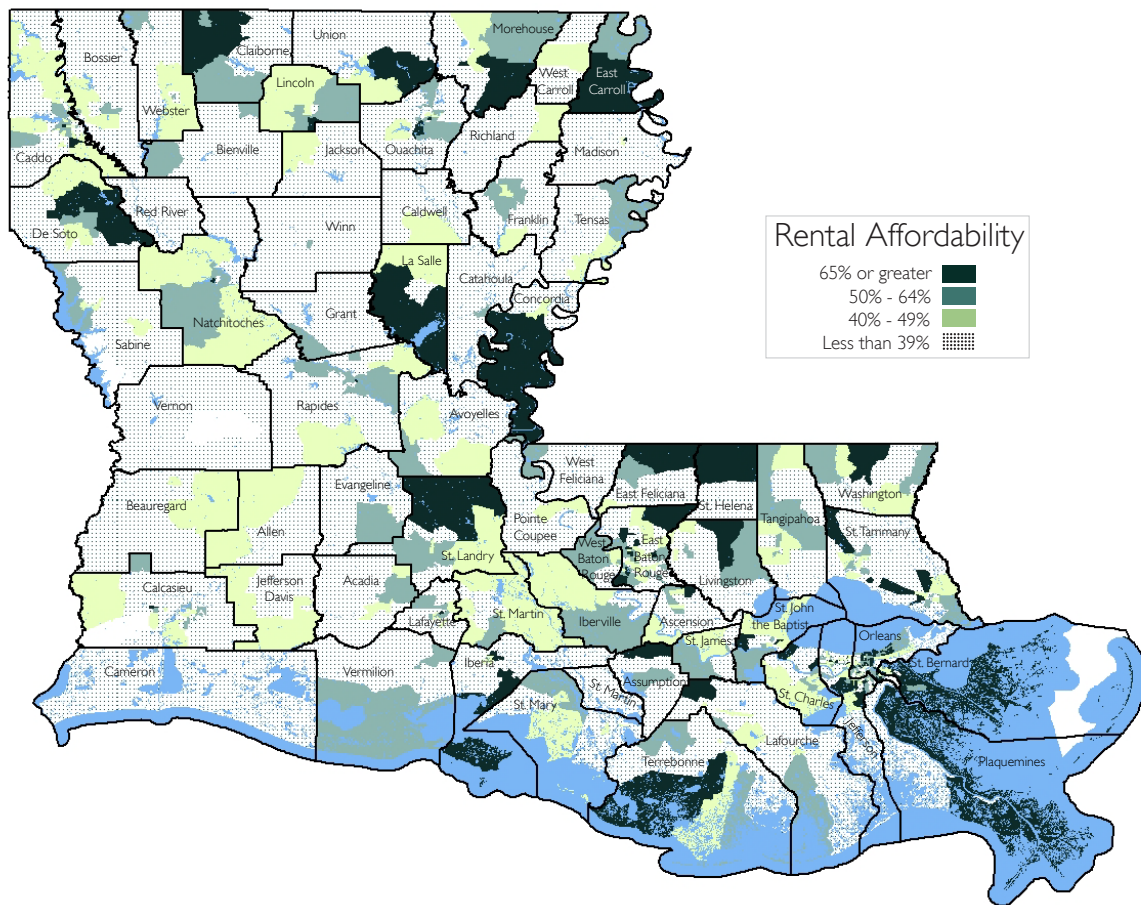
Rental stress is an issue that has grown throughout the country. It is an issue that requires the attention of policymakers, especially as the state develops over the next decade. Map 1 identifies the most hard-pressed areas of the state with respect to rental affordability. The map shows the percentage of households with their gross rental payments exceeding 35% of their income.

We built a simple correlation matrix comparing Rental Stress with poverty (0.41), percent of population “black” (0.41), and median household income(-0.32). None of these factors suggests an

especially strong relationship with Rental Stress, though all of the factors suggest the expected direction of influence.

We also considered socio-structural and economic components to the rise of Rental Stress. The economic component relates to the speculative investments in communities where there is a promise of industrial development. A recent survey conducted by Apartment Guide suggests that the most expensive community in the nation for entry-level rents is not New York or Washington D.C. but Williston, ND. Many counties in western North Dakota have seen rents triple as the state has become the second highest producer of oil and gas in the United States. These increases in living costs have required policy responses from the state managed through the North Dakota Housing Finance Agency. In Louisiana we may witness a similar, although perhaps not equally extreme, situation in the southwestern part of the state. But we also have a possible early indicator in the northwestern part of the state. Of the ten parishes with the highest Rental Stress, five are in RLMA 7, where the Haynesville Shale extraction led to high speculative industrial investment.

Map 1. Rental Affordability (% of household with Gross Rental Payments Exceeding 35% of Income)



The HNA provides the information to identify issues such as renter stress or, as we pointed out in the HNA, the disproportionately high utilization of mobile homes. The information will identify possible housing problems and help ask the right questions. For example, is rental stress a stock of housing issue? Is it an abundance of housing expenses including the rental payment? Is it extreme poverty? Do mobile homes help?

We note that in 2010 Louisiana had 1.964 million housing units and 1.698 occupied housing units, a difference of 268,000 housing units, and the number of unoccupied housing units increased from 2000. In the aggregate, housing stock does not stand out as the primary issue, *though we have to look at each RLMA and engage each community because housing stock is very immobile compared to jobs and population*. The housing stock is one dimension of any discussion of appropriate housing policy, but, what might be an even more important question is how we invest in the existing housing stock, especially those properties controlled or affiliated with the LHC.

Finally, we ran a correlation at the parish level between mobile homes and rental affordability and derived a correlation coefficient of (-0.36), not an especially high correlation coefficient but suggesting the expected direction of correlation – the more mobile homes the lower the rental stress in a parish – which should encourage agencies like the LHC to work to understand this relationship better. Louisiana has proportionately more mobile homes than other states in the nation, but somewhat comparable to other southern states. We also see a variation in mobile homes and rental affordability within RLMAs, an example of which (RLMA 5: Lake Charles) is shown in Table 1. Rural parishes have proportionately more mobile homes than urban parishes and they have slightly fewer families that are rent-stressed, but this cannot be implied as cause and effect. This is why we stated that projections and policy making must be addressed very cautiously.

Table 1. Regional Labor Market 5 (Lake Charles)

Parishes in Regional Labor Market 5	Percent of Mobile Homes	Percent Renters Paying 35% of Income on Housing Expenses
Allen	20%	31%
Beauregard	28%	33%
Calcasieu	16%	43%
Cameron	36%	5%
Jefferson Davis	18%	39%
State	13%	44%

This leads us to our second point in this white paper and that is relating the Housing Needs Assessment to current projections about the state's economy and regions within the state.

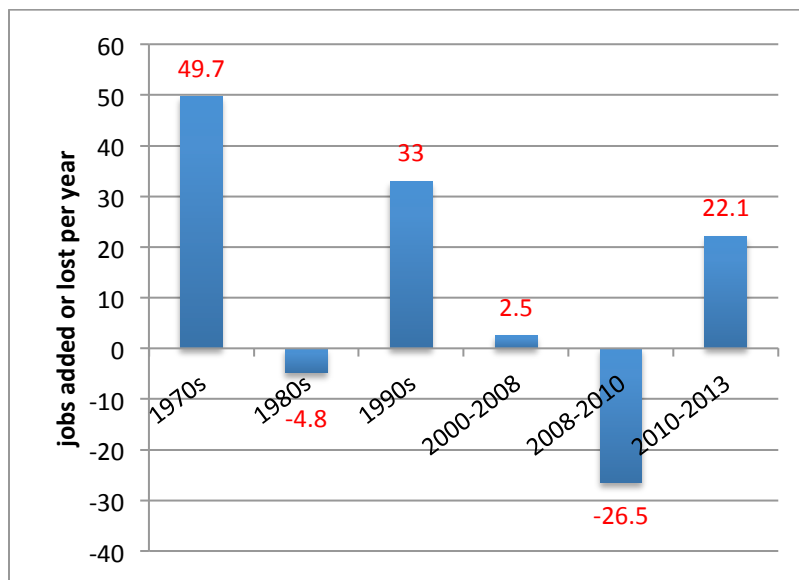
III. Housing Needs Assessment: Using Projections

Housing policy decisions are based on current information, but obviously related to our best expectations and projections of what the future housing needs will be. Economic projections are typically related to labor markets, one of the reasons we decided to focus on regional labor markets in the HNA. Given the immobility of housing structures, it is extremely important that expectations and projections are carefully considered. This is why we keep stressing the perilous path of going from a description of the housing market based on information collected by government agencies directly to policy recommendations. Policymaking requires us to make our best estimates of what the future will look like, but, it is crucial that we examine the existing socioeconomic and housing characteristics carefully. We also caution that projections or proposed developments as announced must be carefully examined and connected to LHC policy parameters.

Employment in Louisiana: Historical and Projected

Looking at past economic periods will assist us in mapping out our best projections of what might happen in the next ten years. Employment in Louisiana and in the major metropolitan areas is illustrated in Figure 4 and Table 2. Louisiana employment is divided into six periods: the 1970s (the oil boom), the 1980s (the oil bust), the 1990s (major recovery), 2000-2008 (lethargic growth), 2008-2010 (the Great Recession), and 2010-2013 (the recovery). The variation in employment change is evident. During the 1970s the state added almost 50,000 jobs per year; during the oil bust the state lost almost 5,000 jobs per year. The growth period of the 1990s included gains of about 33,000 jobs per year, and these gains were related to overall growth in the economy, though there were several industries that developed more rapidly such as the gaming industry. This period was followed by a slower period of growth. During the first eight years of the 2000s, Louisiana gained about 2,500 jobs per year. During the Great Recession the state lost over 26,000 jobs per year, a grand total of 53,000 jobs, but during the recovery from the recession since 2010 the state has gained just over 22,000 jobs per year.

Figure 4. Employment in Louisiana (in thousands per year)



In Table 2 we look at specific regions of the state, namely the metropolitan statistical areas (MSAs), which are coordinated with the regional labor markets. As is clear from the table, the distribution of the employment change throughout the state is not even when we break down the periods into MSAs. For example, during the lethargic growth period from 2000-2008, when the state saw average employment growth of about 2,500 jobs per year, the New Orleans MSA lost over 11,000 jobs per year. There is, of course, the reasonable explanation that this loss can be attributed to the 2005 hurricanes, but even during the recovery period, some MSAs (Alexandria and Shreveport-Bossier) suffered employment losses. This point is meant to underline the difficulty of aligning projections with an uncertain future.

Employment projections are presented in Table 3. These projections are important to gauge possible impacts of new investments that are proposed for certain areas of Louisiana. The Lake Charles area and the Baton Rouge area have a number of anticipated development projects. These developments, if they occur as currently planned, will create a demand for housing that will be partially met by the market, and the market activities will likely create other policy issues around affordability. We will first examine the planned developments in Lake Charles and then in Baton Rouge.²

Table 2. Employment Gains or Losses in MSAs and Rural Parishes (in thousands of jobs)

MSAs and Rural Parishes	Time Periods for Jobs Added or Lost			
	1990s	2000-2008	2008-2010	2010-2013
Alexandria (RLMA 6)	1.05	0.87	-1.79	-0.26
Baton Rouge (RLMA 2)	8.02	4.45	-5.62	6.88
Houma-Thibodaux (RLMA 3)	1.99	2.46	-2.50	2.38
Lafayette (RLMA 4)	3.56	2.50	-2.14	3.93
Lake Charles (RLMA 5)	1.53	0.75	-3.01	1.29
Monroe (RLMA 8)	1.69	0.08	-1.17	0.71
New Orleans (RLMA 1)	8.61	-11.30	-3.17	7.42
Shreveport-Bossier (RLMA 7)	3.48	1.22	-1.97	-1.32
Rural Parishes (in various RLMAs)	3.08	1.44	-5.04	1.06
State	33.00	2.47	-26.40	22.10

² We refer to “planned developments” since nothing is certain until the project actually begins. As an example, in 2010 the Housing Study conducted by GCR & Associates noted the development of the V-Vehicle Car Factory in Monroe. This development was a plan that never materialized. We must be realistic and be fully aware of the factors that may influence these developments in both the Lake Charles area and in Baton Rouge, especially given the recent cancellation of the industrial development in Ascension Parish.

Table 3. Louisiana Economic Outlook, 2013

	Employment (yearly average)		
	2013	2014	2015
Louisiana	1,949,500	1,983,700	2,017,300
Alexandria	62,700	63,000	63,400
Baton Rouge	381,500	394,000	403,200
Houma/Thibodaux	97,100	99,700	102,300
Lafayette	157,800	159,900	161,900
Lake Charles	93,700	97,000	101,500
New Orleans	533,900	538,900	544,900
Monroe	76,900	77,100	77,300
Shreveport/Bossier	175,500	176,400	177,500

Source: E. J. Ourso College of Business, October 2013. (Loren C. Scott and James A. Richardson)

Lake Charles Developments

The SWLA Economic Development Alliance expects an investment of \$67.6 billion in the Lake Charles area as a result of a series of projects related to the energy industry. The projected effects of this total investment include the retention of over 4,000 jobs and the creation of around 30,000 construction jobs over a seven year period with a peak of approximately 12,500 construction jobs in 2015; 5,500 estimated new permanent jobs; and an estimated 11,000 indirect and induced jobs developed from 2012 through 2019. In designing housing policy around such projections, it is important to first put these developments in perspective.

- First, the \$67.6 billion will not all be spent in Lake Charles; in fact, two of the largest expansions will be in Cameron Parish. In addition, companies will bring in machines and equipment built in other parts of the world. The \$67.6 billion represents what the companies have announced as their spending plans, not what will be spent in the Lake Charles area.
- Second, four major investments make up over 80% of the expected investment: Sasol (estimated \$16 billion in Calcasieu), Lake Charles LNG (estimated \$9 billion in Calcasieu), Cheniere (estimated at \$20 billion in Cameron), and Sempra (estimated at \$9 billion in Cameron).
- Third, these projects are very sensitive to the ratio of oil prices to natural gas prices. For many years the normal ratio was 6:1 oil to natural gas. Presently, this ratio is approaching 24:1, and this is a relatively recent change in the price ratio. Oil prices are high and natural gas prices are low, and each of the planned investments in the Lake Charles area probably has a different breakeven point with respect to this oil-to-natural gas price ratio.
- Fourth, the number of construction workers presently in Regional Labor Market 5 is approximately 10,500 with about 9,500 in Calcasieu Parish, so approximately 12,500 construction workers in one year will be quite a challenge.
- Fifth, we note that the Lake Charles RLMA has averaged at the most approximately 1,700 new jobs per year in the 1990s (during the development of the Boeing facility in Calcasieu and the initiation of riverboat casinos), which is considerably less than the estimated jobs to be created if all of the planned developments occur and the estimates of new jobs are correct.

- And, sixth, the issue for policy making is the sustainability of the investment: is it a boom followed by a more normal growth rate, and what kinds of housing will best accommodate this kind of investment—housing policy should be predicated on long-run perspectives.

Housing policy requires us to work through these issues. First, it is assumed the housing market will work effectively for the new hires and the companies will make sure that the construction workers will have a place to stay while working in the Lake Charles area. We project that there will not be another \$67 billion investment after this one is completed. This means the construction workers will come from a variety of places and that their stay in the Lake Charles area will be temporary, though over a relatively long period of time (from 5 to 7 years). Second, what will be the impact on current residents and the housing needs of new residents as the city grows? The market will put pressure on rental prices. Presently, RLMA 5 does not have as much rental stress as other parts of the state, such as Northwest Louisiana or the New Orleans area. We anticipate that, if these investments materialize, rental stress will be much more evident in RLMA 5 than presently. The policy issue is how do we ameliorate the rental stress.

In the Lake Charles area, LHC's focus should be on minimizing the rental stress that is bound to happen if all of this investment materializes. The HNA provides the ground work for knowing the rental stress presently in RLMA 5 with detailed information by census tract. LHC policy will be further informed by the community engagement which includes work with the various development groups, the neighborhoods that will be most affected by the rental stress, the housing organizations in this labor market, developers, and other local governments.

Baton Rouge Developments

We divide the Baton Rouge developments into two categories: (1) *downtown development*: an IBM facility in downtown Baton Rouge (including an eight floor office building, an eleven story residential tower, and 600 dedicated parking spaces), the Water Campus (a major research park), and a major development (35 acre mixed-use development including condos and apartments, hotel, office space, retail venues, and community plaza) being planned between downtown Baton Rouge and the LSU community and (2) *the petro-chemical expansion* in this area will be sizeable but not on the scale of the Lake Charles area.

Apartments are already being constructed to accommodate the IBM workers in downtown Baton Rouge. Multi-unit housing accommodations are planned along Nicholson Drive, the street that links downtown Baton Rouge to the LSU community. However, as new residents move to downtown Baton Rouge and as the downtown/LSU corridor is developed and as more amenities open up in the downtown area, there will be rental stress on lower income families living in the area. Rental affordability becomes the issue for persons without the relatively higher salaries, and these neighborhoods presently have a number of lower income residents.

The petro-chemical expansion in Baton Rouge will have to be focused on (1) dealing with the construction workers on a short-term basis, (2) distinguishing between new employment and employment retention on a permanent basis, and (3) moving from plans to implementation. The Baton Rouge developments will be over a number of parishes with possibly different housing issues. Just as in the Lake Charles region, the focus of the LHC will be on those who are already living in an area and the pressure on the housing market that will result from the expanding industries.

LHC Housing Policy

The HNA provides the background material to focus on each area of the state, and this is especially important since the state differs by region. The next step is to promote community engagement; we need to maintain a close eye on activities in each area of the state since investments may materialize very quickly or may slowdown more quickly than anticipated. In addition, the communities affected by the dynamics of the economy will be able to provide very relevant information about housing issues and needs in their location. We will get our first real understanding of rental stress from the communities affected as they are being affected, which is more valuable information than the occasional compilation of data from the Census. This is why an HNA needs to be updated regularly through a community-centered process.